



MINUTES

PROPERTY TAXATION REVIEW COMMITTEE

September 28, 2004

MEMBERS PRESENT:

Senator Bryan Sievers,
Cochairperson
Senator Herman Quirnbach
Senator Pat Ward
Larry Countryman
R. Kim Dreher
Dale Hyman
Tim McGee

Members Absent:
Cynthia Eisenhower (nonvoting)
Tom Jarrett

Representative Jim Kurtenbach,
Cochairperson
Representative Don Shultz
Representative Doug Struyk
Mike Ralston (nonvoting)
Curtis Rouse
Jerry Shepler
Larry Sigel
Ted Tedesco
Grant Veeder

MEETING IN BRIEF

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Organizational staffing provided
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- I. Procedural Business.
- II. Community Colleges.
- III. Department of Revenue.
- IV. Property Tax Appeal Board Subcommittee.
- V. Professional Property Management, Inc.
- VI. City of Des Moines.
- VII. Iowa Chamber Alliance.
- VIII. Hames Manufactured Home Communities.
- IX. Discussion — Next Meeting.
- X. Materials Filed With the Legislative Services Agency.



Property Taxation Review Committee

I. Procedural Business.

Call to Order. The second meeting of the Property Taxation Review Committee was called to order by Cochairperson Bryan Sievers at 8:07 a.m. on Tuesday, September 28, 2004, in Room 22 of the State Capitol in Des Moines, Iowa. Members of the Committee who were present introduced themselves.

Approval of Minutes. A motion was made to accept the Minutes of the September 1, 2004, meeting as distributed. The motion was seconded and adopted by voice vote.

Proposed Rules. Cochairperson Kurtenbach indicated that a copy of the proposed rules for the Committee was sent to all members via e-mail. Cochairperson Kurtenbach asked to defer consideration of the proposed rules to a future meeting.

Adjournment. The Committee was adjourned at 11:30 a.m.

II. Community Colleges.

Mr. Rob Denson, President, Des Moines Area Community College, assisted by Mr. Steve Ovel, Executive Director of Governmental Relations, Kirkwood Community College, made a presentation on the funding of community colleges. He stated that the importance of looking at community college funding is the fact that America is facing its greatest labor shortage with a serious lack of skilled labor. The high tuition rates and low state appropriations have denied access to college to some and the Iowa community colleges have waiting lists for programs due to limited capacity. Information was provided to indicate these concerns and facts. Particularly important, Mr. Denson said, are the results of a skills survey of 617 companies that indicated the number of new/replacement employees needed by 2006 and the skill level that would be required of those employees. Mr. Denson noted that the companies responding to the survey, when looking outside their own business as training provider, listed community colleges as their first choice as a training provider.

Mr. Denson stated that state funding per community college pupil has decreased since 1990 while other education institutions saw increases in state funding. In addition, there has been a decrease in local support per community college pupil since 1990. Additional sources of funding need to be made available, Mr. Denson averred. He emphasized that something needs to be done since the number of students attending community colleges and also those wishing to attend have both increased, which results in the lack of accessibility to programs.

In response to questions from Committee members, Mr. Denson stated that alternative sources of funding would include local option sales tax and income surtax and any other funding source that would eliminate the inequities related to the decrease in support per pupil and the increase in number of students. He added that, overall, the community college system is healthy. However, there is a problem with lack of capacity to handle increased student interest and the tuition costs. For Des Moines Area Community College, about 55 percent of cost is from tuition, and at Kirkwood, 60 percent from tuition is the average.



III. Department of Revenue — Assessor Qualifications and Budgets.

Mr. Dick Stradley, Property Tax Administrator, Department of Revenue, provided the Committee information on local assessors qualification requirements and budget process. To be eligible for appointment as a city or county assessor, a person must pass by a score of 70 percent an examination given by the Department of Revenue. The examination is given at least twice a year. Persons passing the test are given a regular or temporary certification, depending on their experience. A register is then established that lists in alphabetical order those eligible for appointment. A person remains on the register for a period of two years. Mr. Stradley stated that the appointment procedures involve the local examining board first requesting the register of eligible candidates. A report is then submitted to the local conference board which either appoints from the persons recommended on the report or requests a special examination to be given in the jurisdiction where the vacancy exists and which is open to all persons. The statewide register of eligible candidates is updated and the process involving the local examining board and conference board is redone without the possibility of another special examination. Once appointed, an assessor must complete at least 150 hours of continuing education to be eligible for reappointment. Continuing education requirements are required by statute and established by the department.

In response to questions of the members, Mr. Stradley specified that the eligibility examination is written by the department. Continuing education tests are provided by the organization that provides the continuing education class, but the department must approve the test. No courses are taught at Iowa universities but the University of Wisconsin has an approved course involving appraisal techniques.

Mr. Stradley discussed the assessor's budget process. This involves developing an itemized budget estimate for the office. This includes expenses for the office, the conference board, examining board, and board of review. The limit on the amount of the budget is based on the limitation on the amount of the levy that may be assessed. Special levies may be imposed for a special appraiser's fund and an emergency fund imposed by the conference board.

IV. Property Tax Appeal Board Subcommittee.

Mr. Curtis Rouse provided an update of the Property Tax Appeal Board Subcommittee. Mr. Rouse addressed the subcommittee's review of the sample state appeal board language on Cochairperson Kurtenbach's website. The comments from the subcommittee involved: agreement with most provisions of the draft, acceptance of the composition of the three-member state appeal board, location of the board within but not controlled by the Department of Revenue, funding by the state, the requirement that each party bears its own cost of appeal, and the process should require appealing to the local board of review first with the option of appealing the local board's decision to the state appeal board or appealing directly to district court. The subcommittee expressed its preference that this legislation be considered separately by the Committee. Senator Quirmbach expressed his dislike of creating this new bureaucracy which would result if the appeal board was established, especially since a study has not been done that establishes the inadequacy of the existing local appeal boards.



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V. Professional Property Management, Inc.

Mr. Keith Denner, President, Professional Property Management, Inc., West Des Moines, spoke to the Committee in regards to two issues. The first being that the property tax appeal system is broken and needs to be fixed. Mr. Denner urged the establishment of a statewide appeal board. His reasons for this are that an appeal to the district court system takes too long and is expensive, and there is a wide variation in the competence and independence of the local boards of review. His remedies would involve establishing a fee schedule based upon valuation of the property, placing reasonable time constraints on the process, and continuing to allow appeals to district court.

The second issue was the unfairness in the taxation of residential and commercial properties, especially between condominiums and apartments. He provided examples of the unfairness of their treatment. Senator Quirnbach expressed his belief that the unfairness involves the rollback (assessment limitation). Senator Quirnbach also stated that adding competent people to the local boards of review would negate the need for establishing the statewide appeal board. Mr. Denner's responses to questions from Mr. Dale Hyman were that rent on apartments converted to condominiums has not been reduced even though the taxes have decreased. He also added that in his geographic area the tax shift to commercial is not significant because of the small amount of commercial valuation.

Mr. Denner concluded by commenting that many new apartments are being built as condominiums, whenever possible existing apartments are being converted to condominiums, commercial property that is reclassified as residential results in an increase in value due to capitalization of the lower property taxes, and a reduction in value of existing properties that are not converted is occurring when the market area contains new and converted condominiums.

VI. City of Des Moines — Fire Service Fees.

Mr. Eric Anderson, City Manager, City of Des Moines, discussed a proposal to allow for the imposition of a fire service fee by cities. He noted that most people do not understand the what, where, or how much of the property tax, especially when it relates to funding essential services like police and fire. The proposed fee is for one of those essential services. The purpose is to charge all those for whom the service is provided, establish a link between the cost and the service itself, and reduce property tax. The assumption would be that the \$8.10 per \$1,000 levy limit be reduced by the amount equal to the fire fee, all property would be subject to the fee, and the fee would only apply to the structures. The fee per structure would equal the rate times the value of the structure adjusted to maintain the existing relationship between agricultural, residential, and other properties. Mr. Anderson concluded by saying what is needed is the approval of the General Assembly, valuation of exempt properties, establishment of a collection process, and approval of the city council.

Mr. Anderson answered numerous questions from the members. He said that approximately 25 percent of Des Moines' budget is related to fire service. One of the reasons this proposal was not extended to police service is that many large corporations have their own security personnel. In developing the proposal, he only looked at the major cities and did not consider fire service outside of cities. The fee would be paid on a monthly basis separate from the property tax bill. He



commented that consideration was given to square footage instead of valuation but felt that cost of service is different for an empty warehouse and an apartment building of the same size. It was calculated that under this approach property owners would pay less than if they continued to pay property tax for fire service. Concern was expressed that changing from property tax to a fee would lower the federal income tax deduction for property taxes paid.

VII. Iowa Chamber Alliance Rollback (Assessment Limitation).

Mr. David Maahs, Cochairperson, Iowa Chamber Alliance, spoke on the inequities inherent in the rollback (assessment limitation) provisions as they affect commercial and industrial property. He emphasized that he was not recommending the complete elimination of the rollback provisions but rather the need for an adjustment so that commercial and industrial property is no longer burdened with the bulk of the property taxes as is the case in the major cities in the state.

Mayor Tedesco wondered what the statewide affect on education funding would be if property tax was replaced by a sales tax rate increase or individual income tax rate increase. Mr. Maahs responded that the state could increase the sales tax without an adverse effect but that any increase in income tax needs to be comprehensive because of the perception of Iowa's high tax rate structure. In response to Senator Quirmbach, Mr. Maahs said that reducing income tax rates could be accomplished by eliminating federal deductibility but that he was not recommending this. Cochairperson Sievers queried as to why eliminate the rollback without knowing that commercial and industrial taxes would be adjusted. Mr. Maahs' response was that he was not advocating the rollback be eliminated but only that the current shift in property tax be adjusted. Representative Shultz pointed out that a one percent increase in sales tax would generate about \$300 million but if this is offset by an equivalent reduction in income tax, about \$60 million additional revenue would go to the federal government which would not help Iowa's economic development efforts.

VIII. Hames Manufactured Home Communities — Valuation Process.

Ms. Barbara Hames, Vice President, Hames Manufactured Home Communities, described to the Committee the status of valuation at manufactured home ("land lease") communities. The communities are assessed as commercial property even though people reside there, she said. She gave examples of valuations established by Johnson County and the City of Cedar Rapids. Cedar Rapids used set schedules relating to value of commercial property citywide while Johnson County used profit/loss statements and applied a capitalization rate to arrive at the valuations. Mr. Stradley, Department of Revenue, said that valuation can be determined by three methods. He also noted that Cedar Rapids has not revalued in 10-12 years. Ms. Hames stated there are two types of property taxes imposed in manufactured home communities: one on the owner of the land and another on the owner of the manufactured home. She stated that the results of these property tax increases are to increase home site rental, reduce the supply of affordable housing, reduce services to residents, and decrease the resale value of homes.

Ms. Hames proffered a number of solutions to the taxation problem she described. These include reclassifying land in manufactured home communities from commercial to residential, reducing the disparity between commercial and residential property taxes, providing some form of tax relief to manufactured home communities for city and county services that are provided by the owners of



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the leased land in the communities, revising the method of applying equalization orders, making changes to the local board of review process, and combining city and county assessor offices where feasible.

IX. Discussion — Next Meeting.

Discussion. Cochairperson Sievers suggested that a subcommittee be appointed to look into the area of assessors including the appointment and budgeting process. Cochairperson Kurtenbach stated that at the next meeting a discussion of topics that need to be focused on will be considered. He distributed a listing of options to overhaul Iowa property tax. Senator Quirnbach noted that the Committee should identify the elements of a good property tax system so that the members would have a yardstick with which to gauge proposals. Cochairperson Kurtenbach responded that staff has criteria that was put together or agreed upon informally by a previous property tax study group in this regard and that staff would forward these to the members.

Next Meeting. It was decided that, because of scheduling conflicts, the next meeting set for October 14, 2004, would be cancelled and a new date was set for Wednesday, November 10, 2004, at 2:00 p.m.

X. Materials Filed with the Legislative Services Agency.

The following materials and handouts were made available to the members of the Committee and are on file with the Legislative Services Agency.

1. Funding the Community Colleges of Iowa — Community Colleges Representatives.
2. Qualifications of Assessor and Budget Process — Iowa Department of Revenue.
3. Two Issues Regarding Property Taxation — Professional Property Management, Inc.
4. Proposed Fire Fee — City of Des Moines.
5. Manufactured Housing Presentation — Hames Manufactured Home Communities.
6. Options for Iowa Tax Overhaul — Prepared at Direction of Chairpersons.
7. "Property Taxes: They Aren't What They Seem" — Series of Ames Daily Tribune editorials.

The documents may be accessed on the Internet at:

<http://www4.legis.state.ia.us/aspx/Internet/Committees/Interim/PropertyTax.htm>.